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SUBJECT: URBAN HOUSING IN BELARUS: MORE UNAFFORDABLE THAN
EVER

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Summary

¶1. (U) Housing prices in Belarus have risen higher than in any other sector of the country's economy. In addition to higher energy and raw material costs affecting many sectors, independent experts blame the government's tighter control over residential housing and land. They also believe the country's housing market is overheated by both domestic and foreign investors, who have few other options for investment in Belarus. End summary.

Housing Prices Skyrocket in 2007

¶2. (SBU) In January-March 2007, prices for residential housing in Minsk rose by 35 percent. Belarusian real estate agents predict further growth in housing prices to USD 2,000 and above per square meter, thus making the value of the average two-bedroom apartment about USD 120,000. Belarus? leading real estate experts agree that housing prices may stabilize some time in summer or fall when higher utility bills are likely to force low income dwellers to trade in their bigger apartments for smaller ones.

Soviet-like Policies Crimp Housing Supply

¶3. (SBU) The current housing situation clearly reflects and results from the country's Soviet style economic policies. The GOB virtually halted its privatization program, and Lukashenko tightened control over residential property and vacant land (reftel). Unlike many of its neighbors, Belarus continues the construction of subsidized housing for young families and people whose living space is less than 15 square meters per person. In addition, under the law, people on the waiting list can apply for long-term low-interest banking loans even to pay for subsidized housing.

¶4. (SBU) General Director of housing construction firm Aresa Service Sergey Korenko stated that Belarus constructed 4.14 million square meters of housing, approximately 70 percent of which was social. In compliance with the 2006-2010 subsidized housing program adopted by the GOB in December 2006, the share of social housing will grow by 2010 to 80 percent. Nevertheless, the waiting list has grown, especially in Minsk. Under the law, the first owners of social housing cannot sell their apartments during five years starting from the date of their initial purchase. For example, in Minsk this reduces

the market of new residential housing to 4-5 thousand apartments per year; not much for a city of nearly two million.

Speculators and Construction Costs also Boost Prices

15. (SBU) Yuriy Popov of Tvoja Stolitsa real estate company told us that the price hike was also fuelled by speculative investors, who wait to get the best price, thus further reducing the supply. Higher energy and raw material expenses this year also inflated the cost of housing construction. Finally, residential housing in Belarus, though expensive, is nevertheless much more affordable than in Russia, Ukraine and some other neighbouring countries. Thus, Belarus' relatively inexpensive real estate attracts lots of foreign investors -- including from Russia, China, Iran, and Slovakia -- further increasing the demand.

Housing the Only Safe Investment for Many

16. (SBU) Residential housing remains one of the few areas where Belarusians can still make investments legally and safely with little to no risk of the tax authorities inquiring as to the origin of money spent on the purchase. Furthermore, starting in January 2007, individuals are no longer allowed to sell and buy land for residential purposes, unless a plot already has a finished fixed asset on it. These administrative changes facilitated a dramatic shift away from investments in land to housing projects in Minsk and other major cities (reftel).

Comment

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17. (SBU) Sergei Kostuchenko, CEO of Priorbank, Belarus' largest private bank, announced at a conference on March 30 that the country has 7,000-10,000 U.S. Dollar millionaires. Some of them made their money in the shadow economy and use residential housing to profitably launder their income, driving up prices beyond the reach of most Belarusians. Unless the GOB takes steps to liberalize the housing market and the rest of the economy, making it fully transparent, private housing will remain unaffordable for most low and middle-class Belarusians. A more likely development is the contraction of the housing market, together with the rest of the economy, as the effects of higher energy prices begin to be felt throughout Belarus.

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